

Economic Insights

Scotland votes 'No' - what this means for the Scottish and UK economies

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In light of Scotland's 'No' vote to independence, John Greenwood explains why he sees this as positive news for the economies of Scotland and the UK.

The Scots have voted for continuation of the political, monetary and economic union between England and Scotland that was set up in 1707. The financial, economic, welfare and defence benefits of the union have, in my opinion, long been taken for granted; but the referendum has provided the opportunity to spell them out. Indeed, the political, monetary and economic union has, I believe, been one of the most successful in the world, lasting as it has done for over three hundred years, and bringing enormous benefits to both sides.

First, on the financial front, the Scots will continue using the pound as their currency with no debate at all about this. Unlike the euro-area, the UK has a full political and monetary union. This means that the economic recovery that has already taken hold in both Scotland and the rest of the UK can continue to gain traction. The gradual repair of the two major Scottish banks rescued by the UK authorities can continue. And there need be no concern over the possibilities of currency and capital flight, or the mass-exit of financial institutions.

Second, the Scottish economy can look forward to growth at near-maximum potential, shielded by the continuation of the longest surviving political, economic and monetary union in the world. Already the economies of Scotland and the rest of the UK are highly integrated. Transfers of public expenditure and the welfare arrangements by the UK central government can continue, to be replaced, in time, with a greater measure of devolution for Scotland. Scottish businesses will continue to be able to invest, spend and create employment according to the preferences and aptitudes of its people and the endowments of its magnificent countryside and offshore resources.

Third, instead of focusing on the alleged constraints of the relationship with the rest of the UK, Scots will be able to concentrate on raising their standard of living in the way only they know best - competing, as David Hume put it, to improve on Adam Smith's famous division of labour: *"By the conjunction of forces, our power is augmented; by the partition of employments, our ability increases; and by mutual succor we are less exposed to [mis]fortune and accidents. 'Tis by this additional force, ability, and security, that [economic union] becomes advantageous."*